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FINANCIAL DIGEST

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CONTROLS DON'T WORK . . .

Those who would seek to straitjacket the economy by controlling prices, wages, credit, etc., are ignoring one fundamental fact: Controls have never worked—and have produced serious side effects while they remained in place. Ancient history—going back some 40 centuries—is filled with examples of efforts to control agricultural prices. It is also replete with instances of widespread starvation. In ancient Babylon, Hammurabi specified what wage-price levels should be, while in Egypt, Joseph's Old Testament stewardship of the Pharaoh's granaries sought to achieve the same result. The peoples of both countries suffered repeated cycles of famine.

The Greeks' effort to control prices occurred when the Athenian assembly passed laws establishing a group of grain price regulators called "Sitophylaces," who were charged with enforcing the death penalty against those caught selling their wares above established price levels. Despite the large number of regulators, prices fluctuated according to supplies, and the system soon collapsed. The Romans' experience with controls came under the rule of the emperor Diocletian, who attempted to regulate wages and prices for all major goods, prescribing the now-familiar death penalty for violators. In the words of one ancient scribe, "There was a lot of blood shed, but few provisions brought to market."

Modern history is no more encouraging to those who think the only way to keep inflation down is through wage-price controls. In the battle of Valley Forge, General George Washington's brave army nearly starved to death —not because of the cold winter but mainly due to an enactment by the Continental Congress seeking to limit food prices. Hitler tried a comprehensive system of wage-price controls before and during World War II but was unsuccessful. And such modern-day countries as Russia and China have had to modify their state-run programs in favor of the free market in order to alleviate shortages. More recently, President Nixon's controls produced distortions while they were in force, and once they were relaxed, consumer prices jumped the fastest in 22 years.

. . . AND PRODUCE SERIOUS SIDE EFFECTS, BESIDES

In the face of this evidence, a growing number of economists, politicians, and members of the public at large feel that some form of government intervention in the marketplace is necessary in order to break the back of inflation and the expectation of inflation that is rapidly becoming embedded in decision making by both business and consumers. In particular, those economists who have swung over to the side of controls point out that this time around, they would be supplemented by monetary and fiscal restraint. They point out that such restraint accompanied the controls imposed by President Truman during the Korean War, and when they were relaxed, prices not only did not soar—they subsequently fell. However, things are different today. Washington has not been able to conduct the correct monetary and fiscal policy while their results were visible in the form of accelerating inflation; it is difficult to imagine how hiding inflation by controls will give policymakers the incentive to do any better. If anything, it might produce just the opposite effect.

Needless to say, there are many other reasons why controls should not be clamped on the economy. They undermine our economic freedom—and in the process our political and personal freedom. They distort the allocation of resources by preventing the price mechanism from equalizing supply and demand. They involve the creation of layers of bureaucracy to enforce these controls, resulting in even more government intrusion into the private sector. Most important of all, any conceivable

(continued)

SELECTED FEDERAL RESERVE DATA

(Weekly Averages of Daily Figures – Millions of Dollars)

	Week Ending 2/20/80	Change Since Week Ago	Change Since Year Ago
Reserve Bank Credit:			
U.S. Gov'ts and Agencies Owned Outright & RPs	125,392	+2,515	+15,521
Member Bank Borrowings	2,194	+ 958	+ 1,256
Float	5,536	+ 567	— 6,507
Total Reserve Bank Credit	137,720	+3,270	+10,507
Treasury Deposits with Federal Reserve Banks	3,369	— 358	— 165
Currency Outside Banks	111,686	+1,691	+ 9,854
Member Bank Reserves:			
Required	43,402	+ 871	+ 2,881
Excess (Deficiency)	830	+1,001	+ 473
Total Reserves Held	44,232	+1,872	+ 3,354
Net Borrowed Reserves	1,264	— 52	+ 806
Money Supply ($ Bil., SA) M1-A	377.4	+ 1.1	+ 6.4%
Money Supply ($ Bil., SA) M1-B	393.9	+ 1.0	+ 8.1%
		Change Since Month Ago	Change Since Year Ago
M2 ($ Bil., SA) (Jan. '80)	376.2	+ 8.7	+ 9.0%
L ($ Bil., SA) (Dec. '79)	389.0	+ 14.4	+ 11.0%

NEW YORK MONEY MARKET

Offering Rates 2/29/80	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	13.69%	13.76%	13.41%
*Federal Agencies	14.22	14.76	14.89
*Project Notes—Tax Free (46% Taxable Equivalent)	12.96	13.42	13.42
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*Secondary Market—Prime	15.35	15.82	

‡Finance Company Paper—Prime		‡*Bankers' Acceptances	
5- 14 days	14.00%	Mar.	14.40%
15- 29 days	14.25	Apr.	14.40
30- 89 days	14.50	May	14.75
90-239 days	14.55	June	14.75
240-270 days	13.38	July	14.75
		Aug.	14.75

‡Industrial Paper—Prime	
30- 89 days	14.50
90-120 days	14.75

†Federal Funds Effective Rate 16.40%

‡Discount Basis. *Subject to Availability. †Estimated.

SELECTED BUSINESS INDICATORS

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'79	$ 2,459	$ 2,397	$ 2,235
Gross National Product (1972 Dollars)*	4th Q'79	$ 1,441	$ 1,433	$ 1,427
Percent Change, Annual Rate	4th Q'79	2.1%	3.1%	5.6%
Change in Consumer Prices (all urban consumers)*	Jan. '80	16.8%	14.4%	10.8%
Change in Producer Prices*	Jan. '80	19.2%	10.8%	14.4%
Civilian Employment (Thousands of Persons)†	Jan. '80	97,804	97,912	96,157
Unemployment as % of Civilian Labor Force†	Jan. '80	6.2%	5.9%	5.8%
Personal Income*	Jan. '80	$ 2,036	$ 2,024	$ 1,818
Leading Indicators Composite Index (1967=100)†	Jan. '80n	135.1	136.0	142.7
Industrial Production Index (1967=100)†	Jan. '80	152.7	152.3	151.5
Net Change in Consumer Instalment Credit†	Dec. '79	$ 1.55	$ 2.41	$ 4.40
U.S. Merchandise Trade Balance†	Dec. '79	—$ 3.08	—$ 1.42	—$ 1.75
Plant and Equipment Expenditures*	1st Q'80	$189.32(a)	$179.56	$165.94
Private Housing Starts (Thousands of Units)*	Jan. '80	1,420	1,517	1,727
New Construction Expenditures*	Dec. '79	$ 239.6	$ 237.4	$ 223.2
Total Business Inventories†	Dec. '79	$ 426.3	$ 424.4	$ 379.6
Total Business Sales†	Dec. '79	$ 301.3	$ 299.3	$ 272.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

SHORT TERM PAPER OUTSTANDING

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CDs Weekly Reporting Banks			
Nationwide (2/13/80)	92,539	— 189	— 2,941
New York City (2/13/80)	20,216	— 27	— 8,093
Commercial Paper (2/13/80)	119,432	+ 587	+30,862

BANK LOANS

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/13/80)	159,300	+1,472	+24,770
New York City (2/13/80)	48,371	+ 592	+ 9,532

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/13/80)	397,985	— 425	+53,664
New York City (2/13/80)	89,430	— 72	+12,218

SECURITY MARKETS

	Friday 2/29/80	Change Since Week Ago	Change Since Year Ago
U. S. Governments, Closing Bid Prices:			
90-Day Bills (Discount Basis)	13.90%	+ .55	+ 4.48
180-Day Bills (Discount Basis)	13.90	+ .55	+ 4.42
Longest Bills (Discount Basis)	13.59	+ .34	+ 4.14
13⅞s 2/28/82 (w.i.)	98.26	N.A.	
11⅞s 8/15/83	95.00	— 25/32	
10¾s 11/15/89 (w.i.)	89.12	N.A.	
11¼s 1/15/10	96.00	+ 2	
Municipals:			
Bond Buyer—20 Bond Index* (2/28/80)	8.72%	+ .26	+ 2.30
Blue List Total ($ Million)	$ 565	—$ 86	—$ 237
30-Day Visible Supply ($ Million)	$1,577	—$ 342	—$ 23
Total	$2,142	—$ 428	—$ 260
Corporates:			
Moody's Aa Composite (2/28/80)	12.82%	— .24	+ 3.21
Money Mgr.—30-Day Supply ($ Million)	$1,566	+$ 17	+$ 626
Stocks:			
Dow-Jones Averages			
Industrials	863.14	— 5.63	+ 47.39
Transportation	289.44	+ 0.44	+ 80.88
Utilities	109.68	— 1.25	+ 6.57
65 Stocks	317.01	— 1.54	+ 39.69
Standard and Poor's 500 Stocks	112.94	— 2.10	+ 15.97
N.Y.S.E. Composite Index	64.95	— 0.85	+ 10.65
N.Y.S.E. Avg. Daily Vol. for Week (000's)	40,958	— 5,110	+15,700

*46% Taxable Equivalent 16.15%

INTERNATIONAL RATES

	Friday 2/29/80	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	15.50%	15.63%
1 month	16.19	16.25
3 months	17.00	16.63
6 months	17.00	16.75
1 year	16.38	16.25
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.35%	14.45%
Long Term (10 to 15 yrs.)	14.25	14.65
FOREIGN EXCHANGE SPOT RATES New York Opening (in dollars)		
Belgium	.03473	.03500
Canada	.8729	.8703
France	.2406	.2426
Germany	.5641	.5689
Italy	.001217	.001232
Japan	.003994	.004051
Mexico	.04374	.04382
Netherlands	.5124	.5178
Switzerland	.5913	.6049
U.K.	2.2782	2.2870

controls on prices would have little effect on today's major causes of inflation.

THE FAST RISERS CAN'T BE CONTROLLED

The rise of 14 percent in consumer prices over the past year is an average; some items have gone up less while others have gone up faster. Most of those items that have gone up faster than the average—thus can be said to be the primary causes of today's inflation—are items over which direct control would be virtually impossible. Take energy, for example. Fuel oil is up 68 percent over the past year while gasoline prices are 60 percent higher. Can the Administration control these prices? Housing prices are also rising faster than average; can the Administration control the prices at which individual home sales are made? Interest rates on home mortgages have climbed substantially over the past year, as have interest rates in general. Clearly, Washington cannot control the cost of money without creating all kinds of additional problems.

On the state and local level, mass transit fares, and some taxes are up by more than the general price level. It would not appear possible for Washington to control these items, either. Even such a relatively minor item as jewelry, which has climbed rapidly because of soaring prices of gold and other precious metals, is not amenable to controls. George Santayana, the philosopher, once said: "Those who cannot remember the past are condemned to repeat it." Let us hope that Washington remembers this.

BABY BOOMLET BOUNCES BACK

The number of babies born in the United States last year increased substantially from 1978, continuing the uptrend begun in 1976, in sharp contrast to the previous 15-year descent. In addition, the fertility rate (the number of births per 1000 women between the ages of 15 and 44), which has been on a protracted decline since 1957, has also grown during this time. When combined with the growing number of women of childbearing age, a sequel to the postwar "baby boom" may be indicated.

The sharp drop in the birth rate during the 1960s and early 1970s has been attributed mainly to the changing roles of women in our society as more sought careers, financial security and independence. In addition, improved methods of family planning and soaring costs of having and raising children were and continue to be important factors. The expectations of "ideal" family size perceived by women, which have been scaled sharply downward, are also illustrative. Whereas in the early 1960s women wanted to have three to four children, the average today is much closer to two.

During the past three years, however, many women, who postponed childbearing for reasons mentioned above, have decided to become mothers. This has resulted in an increase in fertility rates for the older age group, 25 to 34, compared with the overall rate, and especially with the 20 to 24 year-old category, which, however, still has the highest rate. This change is further demonstrated when the age of mothers at the birth of their first child is examined. The 20 to 24 group has posted a 30 percent decline in this rate since 1970, while the 25 to 29 group (and especially 30 to 34 year-olds) registered increases.

The number of women of childbearing age has grown rapidly during the 1970s and is projected to continue to increase through the 1980s, reflecting the maturation of the baby boom females. Most important, the older group—in the 25 to 34 year-old bracket, which is experiencing a relative increase in fertility rate—will expand by another 14 percent during the 1980s, significantly above the expected growth of 8.8 percent in the total female population. Also, marriages seem to be on an upturn. During the 12 months ending in November 1979, the marriage rate was higher than for any previous 12 months since October 1974.

Although the upturn in the birth rate during the 1980s is not expected to approach the magnitude of the last baby boom, the average number of births is expected to surpass that of the 1960s and 1970s. It will have an impact on the educational system. According to the Census Bureau's forecast, the number of children under six will increase by 26 percent by 1990. Consequently, many elementary schools which closed during the 1970s will reopen again. Similarly, if the current trend in the number of working mothers continues, the need for child care services and nursery schools may increase by as much as two-thirds. The higher number of toddlers will also boost demand for baby food, toys, and baby clothes.

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